

CALFED Bay-Delta Program
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Comments on CALFED Revised Phase II Report
Draft Programmatic EIS/EIR

The following comments on the draft CALFED Programmatic EIS/EIR are submitted on behalf of the twenty-one Farm Credit lenders serving the state of California*.

These Farm Credit lenders are part of the national Farm Credit System, which is a network of cooperative lending institutions owned by farmers and ranchers. Farm Credit's loan volume in California is approximately \$4.9 billion.

CALFED's draft Programmatic Environmental Impact Statement/ Environmental Impact Report provides important insight into the status and possible direction of managing the Sacramento-San Joaquin Delta.

Our sole business is lending to agriculture. Because of this narrow focus, we are especially sensitive to conditions that jeopardize the credit worthiness of the producers and processors we serve. Our past experiences in dealing with proposed changes to the laws and regulations that impact the availability and cost of agricultural water have convinced us that proponents of reform all too often either overlook or do not adequately consider the effect such change could have in limiting or denying credit access for capital needs of agricultural water users. Without the assurance of a continued supply of adequate good quality water for use on irrigated real estate pledged as collateral, a grower's access to capital will be seriously limited.

When a grower applies for a production or long-term agricultural real estate loan, a lender will evaluate many factors to ascertain the applicant's credit worthiness. Included in the list of evaluation factors is the durability of the property value. A prime determinant of durability is the continued availability of irrigation water over the life of the loan. We believe it is essential that any CALFED final solution protect this dependability and provide sufficient safeguards for third party impacts.

The need for a long-term Bay-Delta fix is indisputable. However, we view the proposed solutions as having significant consequences for the agriculture community, including those that provide credit to agriculture, such as these Farm Credit lenders. While CALFED makes a number of proposals in its draft

programmatic EIS/EIR regarding the management of the Delta, these comments will focus on those which propose to convert agricultural land and water to other uses. We believe any CALFED final solution should enhance California's environment and economy - particularly agriculture. California agriculture and related activities cannot be ignored as being a major contributor to the state's economy that provides multiple benefits to all Californians.

Agricultural Land and Water Conversion

CALFED's common programs and alternatives include proposals to retire and/or convert agricultural land and water to other users. Large-scale land retirement or conversion, for any purpose, will have profound economic, social and environmental consequences. Taking farmland out of production will hurt the very thing CALFED is trying to restore - the environment. Mitigation requirements under CEQA for these losses must be addressed in the plan before land retirement takes place.

California Farm Credit lenders are specifically chartered to provide adequate credit to agriculture. If significant land and water reallocation occurs, a material impact will be felt by the decline in loan volume and the means to be competitive in the financial services arena. As an agriculture-dependent business, land and water conversion undoubtedly will have direct economic and social ramifications in our business. As mentioned earlier, Farm Credit institutions are cooperatively owned by its borrowers, and any adverse impact experienced by the association as a result of this type of loan loss must necessarily be absorbed by other stockholder/borrowers in the form of higher interest rates.

In addition to generating economic activity, privately owned California farmland is critical to the tax base of rural communities. Retiring farmland or converting it to habitat via government acquisition will remove these lands from the tax rolls, placing additional burdens on local governments, school districts, etc. with declining tax revenues. Large-scale land retirement would have devastating impacts on the water districts serving those lands. Many water districts have incurred large debts to build their distribution systems. Fixed costs, including bond debt repayment, are usually covered by assessments or other charges levied on each acre serviced by the district. If acreage is retired, the fixed costs previously allocated to that land must be covered by the land remaining in production. Land retirement would have similar impacts on reclamation districts. The farmers served by these districts would face higher costs, potentially pushing some out of business.

Ultimately, many of the proposals advanced by CALFED and the environmental community with respect to farmland retirement and conversion fail to satisfy CALFED's Solution Principles. Specifically, land retirement does not reduce

conflicts because demands on the state's water system will continue to exceed capacity. Retirement does not meet the test of equitability when the devastation of agricultural production and rural economic activity are compared to uncertain and minimal environmental benefits. Land retirement is not affordable when viewed in the context of its impact on economic activity, employment, and local governments. Finally, land retirement clearly violates the principle of no significant redirected impacts.

We need to look at other ways to keep that land on the tax rolls and in private ownership.

Water Transfers

Water transfers have been going on for some time. Farm Credit lenders in California supports the inclusion of voluntary short-term water transfers and exchanges as a component of an integrated and balanced long-term CALFED package. Water transfers can both benefit the environment and enhance water supply reliability. However, we are concerned about the lack of analysis currently taking place regarding water transfers. We are not opposed to transfers as a short-term solution to temporary shortages. We believe it can be an effective management tool for farmers under the appropriate circumstances. We worked with many borrowers during the drought years in addressing their water status. However, water rights of the transferring entity must continue to be protected and must not be jeopardized by transfers of water.

Finally, ***new water storage must be part of the solutions.*** The pressures of California's rapidly increasing population demand that the state enlarge its available water supply. We will need water to support 50 million people, while maintaining agriculture and the environment. California's water storage and conveyance capacity must be enhanced before water transfers can play a role in resolving water management issues. Without jeopardizing the objectives outlined above, the regulatory approval process for transfers must be streamlined to the maximum extent possible to encourage and facilitate cost-effective and timely transactions in accordance with state law. Currently active water transfer markets should not be diminished by new transfer rules arising out of CALFED.

Water Rights

CALFED must not diminish water rights, and must not base its solution on redirection of ag water and conversion of farmland to other uses. California's water rights law is founded on a priority rights system developed to ensure the certainty of water supplies to those investing in water projects. California must

maintain this system of law that has guided allocation and use decisions since statehood.

When both the Central Valley Project and State Water Project were constructed, area of origin laws were enacted to ensure Sacramento Valley's ability to grow with adequate water supplies. Increasingly, state and federal agencies and water users fail to recognize these laws and commitments. This places high anxiety on agricultural lenders who must be certain of water rights running with the land which has been placed as collateral for a 20 - 30 year loan. Agricultural land is of very little value, if any, without its water.

Any business with links to agriculture has a stake in the California water situation. The Farm Credit lenders in California are keenly interested in the success of the CALFED process, but will only support a solution that benefits agriculture throughout the state.

We are very supportive of efforts to improve water marketing in the state, but believe the efforts should be carefully thought out to minimize impacts on the lending and agricultural industries. Water and jobs are closely related and losses can go beyond on-farm jobs.

Farm Credit lenders serving California include the following:

- Central Coast Federal Land Bank Association, FLCA
- Central Coast Production Credit Association
- Central Valley Production Credit Association
- Federal Land Bank Association of Colusa, FLCA
- Colusa-Glenn Production Credit Association
- Fresno-Madera Federal Land Bank Association
- Fresno-Madera Production Credit Association
- Federal Land Bank of Kingsburg, FLCA
- Northern California Federal Land Bank Association, FLCA
- Northern California Production Credit Association
- Pacific Coast Farm Credit Services, ACA
- Sacramento Valley Farm Credit, ACA
- Sierra-Bay Federal Land Bank Association, FLCA
- Sierra-Bay Production Credit Association
- Farm Credit Services of Southern California, ACA
- Valley Federal Land Bank Association, FLCA
- Valley Production Credit Association
- Federal Land Bank of Yosemite, FLCA
- Intermountain Federal Land Bank Association, FLCA
- Intermountain Production Credit Association
- Farm Credit Services Southwest, ACA